

Deficit Exceeds \$1 Trillion for Second Year in a Row

According to CBO, the federal deficit is \$1.0 trillion through the first nine months of fiscal year 2010 (by comparison, at a comparable point last year, the deficit was slightly less than \$1.1 trillion). Counting just the month of June, federal receipts were \$36 billion or 17% higher than June 2009, and spending was \$11 billion or 3.5% higher. So far in FY 2010, federal receipts have amounted to \$1.6 trillion and federal spending has amounted to \$2.6 trillion—which means that 38% of all federal spending this year has come from borrowed money.

House to Consider Flood Insurance Legislation

Tomorrow, the House will consider legislation that extends the National Flood Insurance Program (NFIP) through 2015 and increases coverage limits as follows: **1)** From \$250,000 to \$325,000 for residences; **2)** From \$500,000 to \$670,000 for nonresidential properties; **3)** From \$100,000 to \$135,000 for residential contents.

The legislation creates a new \$250 million over five years program of outreach grants intended to promote the purchase of flood insurance coverage by property owners and to increase public awareness of flood-risk reduction. The bill further creates a \$200 million over five years Severe Repetitive Loss Mitigation Pilot Program. This would provide grants for projects that reduce flooding in at-risk areas.

The present version of the bill includes some reforms that many conservatives would support, including: **1)** A study requiring the FEMA Administrator to submit a report to the Congress setting forth a plan for repaying the \$18 billion owed to the Treasury within 10 years. **2)** A minimum deductible for insured properties of between \$750 and \$2,000. **3)** An increase in the annual cap on rate increase from 10% to 20%.

Many conservatives believe the National Flood Insurance Program dampens the financial and common-sense disincentives to build homes in flood-prone areas by making flood insurance artificially cheaper than it otherwise would be. The program currently owes the Treasury more than \$18 billion. According to CBO, The NFIP has a total insured exposure of \$1.2 trillion. There will be some concern that the reauthorization will not make the program self-sustaining.

Quote of the Week:

“Tonight the House passed a budget that cuts spending and reaffirms Democrats’ strong commitment to fiscal responsibility, while also making clear that our top priority remains job creation.”

-Hoyer Press Release, 7/01/2010, on celebrating the House’s unprecedented failure to pass a budget resolution, but instead passing a “deeming resolution” that increases discretionary spending by \$30 billion.

IMF Tells United States to Reduce Deficit

The highlight of the President’s budget strategy is to reduce the deficit to \$520 billion by 2015 (a higher deficit than any year from 1789-2008). The Democrats’ “deeming resolution” also contains a version of this goal, a sense of the Congress that the deficit in 2015 should not exceed net interest payments in that year (\$520 billion)—but does absolutely nothing whatsoever to bring about that result. Many conservatives would argue that deficits at this level are too high. But the IMF argues that the President’s economic projections are too optimistic, and consequently the U.S. is not on course to meet even this unambitious goal. The report states: *“Given that we use less optimistic economic assumptions than the Administration, we see the need for a more ambitious adjustment to stabilize debt than that envisioned by the authorities...”* Under the President’s budget, the public debt increases from 63% of GDP in 2010 to 90% of GDP in 2020.